

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

FILED

AUG 07 2008

PETITION OF INDIANA UTILITIES)
CORPORATION FOR AUTHORITY TO)
CHANGE ITS RATES, CHARGES, TARIFFS,)
RULES, AND REGULATIONS; AND FOR)
APPROVAL OF NEW RATES, CHARGES,)
TARIFFS, RULES, AND REGULATIONS)
FOR GAS SERVICE RENDERED TO ITS)
CUSTOMERS.)

INDIANA UTILITY
REGULATORY COMMISSION

CAUSE NO. 43520

PREFILED DIRECT TESTIMONY OF

FRANK CZESCHIN

ON BEHALF OF

INDIANA UTILITIES CORPORATION

**PREFILED DIRECT TESTIMONY OF
FRANK CZESCHIN
ON BEHALF OF INDIANA UTILITIES CORPORATION
IURC CAUSE NO. 43520**

1 **1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** My name is Frank Czeschin. My business address is 123 West Chestnut
3 Street, Corydon, Indiana 47112.

4 **2 Q. ARE YOU AFFILIATED WITH THE PETITIONER, INDIANA**
5 **UTILITIES CORPORATION?**

6 **A.** Yes. I currently serve the Petitioner as President and Chief Executive
7 Officer.

8 **3 Q. HOW LONG HAVE YOU SERVED IN THAT CAPACITY?**

9 **A.** Nine years. I became President of the Petitioner in 1999.

10 **4 Q. PLEASE DESCRIBE GENERALLY YOUR RESPONSIBILITIES**
11 **WITH PETITIONER.**

12 **A.** In general, I am the primary officer responsible for all activities of the
13 company. Specifically, I have direct responsibility for the financial results
14 of our company's operation, oversight on the purchase of natural gas,
15 oversight on the construction and operation of facilities, and responsibility
16 for making decisions related to the company's future.

17 **5 Q. DO YOU HAVE ANYONE ELSE WHO ASSISTS YOU IN YOUR**
18 **MANAGEMENT RESPONSIBILITIES?**

19 **A.** I have a number of people in our office who assist me on various matters
20 related to serving our customers, maintaining our books and records, and

1 maintaining our facilities. I also have retained the services of outside
2 consultants primarily related to financial matters, engineering issues, legal
3 matters, and natural gas purchases where appropriate.

4 6 Q. MR. CZESCHIN, IN ADDITION TO YOUR EXPERIENCE AS
5 PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THIS
6 PETITIONER, DO YOU HAVE ANY OTHER EDUCATIONAL OR
7 PROFESSIONAL EXPERIENCES WHICH YOU BELIEVE ARE
8 RELEVANT TO THE CONCLUSIONS YOU OFFER IN THIS
9 TESTIMONY?

10 A. Yes. I hold a business degree from Indiana University. I have worked in
11 the natural gas industry since 1983, starting with Indiana Gas Company,
12 now Vectren Energy Delivery of Indiana. In 1994, I started with Indiana
13 Utilities Corporation. I have participated in numerous natural gas industry
14 conferences and forums, and thus have significant experience on the issues
15 facing the natural gas industry as it relates to the acquisition and delivery
16 of natural gas throughout our service territory in Harrison and Floyd
17 Counties. Finally, I think it is appropriate to note that I live in our service
18 territory; and thus come into contact with our customers, vendors, and
19 alternative energy competitors in a regular basis.

20 7 Q. IS THE INFORMATION SET FORTH IN YOUR PETITION
21 WHICH INITIATED THIS CAUSE ACCURATE?

22 A. Yes, it is.

23 8 Q. WHY HAS THIS CASE BEEN FILED?

1 A. We currently are not recovering sufficient rate revenue to cover our cost of
2 operation and provide a reasonable return. Since our current rates were set
3 in 2003, based upon a test year of 2002, we have experienced increases in
4 the cost of operation, and significantly under-earned our previously
5 authorized return. Based on a review of our current financial situation, I
6 and the directors believed it was prudent to initiate this rate case.

7 9 **Q. PLEASE DESCRIBE GENERALLY WHAT THE PETITIONER IS**
8 **SEEKING BY THIS CASE.**

9 A. We are proposing to increase our current base rates by approximately
10 6.93% on an across-the-board basis applicable to all existing customer
11 classes. The specifics of how we arrived at that particular increase are
12 reflected in the prefiled material from our accounting and financial
13 consultants - Mr. Mercer and Ms. Mann.

14 10 **Q. MR. CZESCHIN, YOU HAVE NOT FILED A COST OF SERVICE**
15 **STUDY WITH THE PREFILED MATERIAL IN THIS CASE.**
16 **COULD YOU EXPLAIN WHY A COST OF SERVICE STUDY**
17 **WAS NOT FILED.**

18 A. The current rates were established by a cost of service study in our last
19 rate case. While we have lost some customers, I don't believe that the
20 customer mix has significantly changed since then.

21 11 **Q. WITH RESPECT TO THE PROPOSED INCREASE, WHAT ARE**
22 **THE BASIC FACTORS DRIVING THAT REQUEST?**

1 A. The basic factors include increased operating expenses, reduced usage by
2 our existing customers, a loss of certain large industrial customers, and
3 additional investment in our rate base.

4 12 Q. **HAVE THE COSTS RELATED TO THE PURCHASE OF**
5 **NATURAL GAS ALSO INCREASED SINCE YOUR LAST RATE**
6 **CASE?**

7 A. Yes. More importantly, the costs are so volatile, that we are required to
8 maintain significant funds in the business in order to assure ourselves that
9 we would be allowed to purchase natural gas.

10 13 Q. **MR. CZESCHIN, ARE YOU FAMILIAR WITH THAT PORTION**
11 **OF PETITIONER'S PROPOSED RATE BASE WHICH INCLUDES**
12 **PETITIONER'S UTILITY PLANT?**

13 A. Yes, I am.

14 14 Q. **DO YOU BELIEVE THE COMPANY'S INVESTMENT IN ITS**
15 **UTILITY PLANT IS USED AND USEFUL IN PROVIDING**
16 **SERVICE TO YOUR CUSTOMERS?**

17 A. Yes, I do. The plant reflected in our rate base is used, useful, and in fact
18 necessary to acquire and deliver natural gas to our customers.

19 15 Q. **ARE YOU FAMILIAR WITH THE TERM "FAIR VALUE"?**

20 A. Yes. It is my understanding that the Commission is required to determine
21 the fair value of all property used by the utility in providing service to its
22 customers. I further understand that there are different methodologies that
23 can be used to determine that value, such as examining the original cost of

1 the utility plant based on book entries of the company, analyzing the cost
2 of reproducing existing utility plant, and perhaps other methods as well.

3 16 Q. DO YOU HAVE AN OPINION AS TO WHAT THE FAIR VALUE
4 OF PETITIONER'S UTILITY PLANT IS?

5 A. Yes, I do.

6 17 Q. WHAT IS THAT OPINION?

7 A. I believe that the value of our utility plant is at least \$4,374,893, based on
8 the original cost per books, as reflected in the exhibits sponsored by our
9 accounting witnesses. However, I believe that the true fair value of our
10 utility plant is significantly greater. I believe that the fair value as of our
11 cut-off date is at least \$8,000,000.

12 18 Q. SINCE THE FILING OF THE COMPANY'S PETITION IN THIS
13 CAUSE, HAVE YOU INVESTIGATED THE ABILITY OF THE
14 COMPANY TO BORROW LONG-TERM DEBT TO EXPAND ITS
15 UTILITY PLANT?

16 A. Yes, I have. With the anticipation that the company will be authorized to
17 expand its current service territory into a contiguous area in Harrison
18 County, I reviewed alternatives to funding the construction of the facilities
19 initially necessary to serve that area. Based on the advice of the
20 company's consultants, we have explored the ability of the company to
21 borrow approximately \$750,000 over a sufficiently long period of time at
22 a reasonable interest rate.

1 19 **Q. MR. CZESCHIN, HAVE ANY FINANCIAL INSTITUTIONS**
2 **ACKNOWLEDGED INTEREST IN PROVIDING YOU A LOAN IN**
3 **THIS AMOUNT?**

4 **A.** Yes. There appears to be interest from Regions Bank, Community First
5 Bank, and Edward D. Jones.

6 20 **Q. PLEASE DESCRIBE THE TERMS THAT HAVE BEEN OFFERED.**

7 **A.** As of the date of the filing of this testimony, no specific terms have been
8 offered by any of these institutions. However, Regions Bank has
9 suggested that it would be willing to offer a 15-year note at a fixed rate at
10 or below 6.0%. Community First Bank has suggested that we consider a
11 variable rate tied to the current prime rate, but subject to potential monthly
12 changes. Edward D. Jones has suggested that they would be interested in
13 some form of bond issue.

14 21 **Q. MR. CZESCHIN, WHICH OF THESE OPTIONS DO YOU**
15 **BELIEVE BEST FITS THIS PETITIONER?**

16 **A.** Currently, we believe a fixed interest rate for the life of the loan is our best
17 approach. While there is a possibility of a lower initial interest rate based
18 on a variable interest rate, we recognize the potential of volatility and a
19 higher future interest rate, which comes with that option. With respect to
20 a bond issued, we recognize that there will be a number of additional fees
21 and costs associated with a bond that would not be associated with a loan.

22 22 **Q. MR. CZESCHIN, HAVE EITHER OF THE BANKS INDICATED**
23 **WHAT TYPE OF ORIGINATION FEES MIGHT BE CHARGED**

1 **WITH EITHER A FIXED RATE LOAN OR A VARIABLE RATE**
2 **LOAN?**

3 A. Regions Bank proposes a \$250 origination fee; Community First Bank
4 would have no origination fees.

5 23 Q. **BASED UPON THE INFORMATION YOU PRESENTLY HAVE,**
6 **WHAT ARE YOU PROPOSING IN THIS CASE?**

7 A. I believe the best approach is to obtain the necessary authority from this
8 Commission to borrow long-term debt up to certain maximum amounts. I
9 believe it would be appropriate for this company to be authorized to
10 borrow up to \$750,000 for a term not to exceed 15 years, at an interest rate
11 not to exceed 6.0%. To the extent fees or costs occur with such debt, we
12 would propose to roll those amounts into this maximum loan amount.
13 Finally, I think it is also appropriate for the company to file additional
14 information with the Commission in the form of a true-up filing reflecting
15 the actual terms as of closing.

16 24 Q. **IS IT POSSIBLE THAT THE ACTUAL TERMS AVAILABLE FOR**
17 **THE COMPANY FOR THIS LONG-TERM DEBT WILL BE**
18 **KNOWN PRIOR TO OUR HEARING IN THIS CAUSE?**

19 A. Yes. Since the hearing in this Cause is currently scheduled in November
20 of this year, I anticipate that the final terms available to the company will
21 be known prior to that time, and we could add that information to our
22 prefiled material.

1 25 **Q. WILL THE COMPANY REDUCE ITS REVENUE REQUIREMENT**
2 **IF THE FINAL TERMS ARE LESS THAN THE MAXIMUM**
3 **TERMS NOTED HERE?**

4 A. Yes, we will.

5 26 **Q. IF THE FINAL LOAN TERMS ARE HIGHER THAN YOU**
6 **CURRENTLY ANTICIPATE, WHAT WILL THE COMPANY DO?**

7 A. To the extent necessary, we would likely seek additional authority from
8 this Commission to meet those higher terms.

9 27 **Q. MR. CZESCHIN, THE PREFILED MATERIAL FROM YOUR**
10 **ACCOUNTANTS PROPOSES A CHANGE IN YOUR SERVICE**
11 **CHARGE. DO YOU AGREE THIS IS APPROPRIATE?**

12 A. Yes, I do. Many of the costs we incur to provide service to our customers
13 are fixed, regardless of the volume of gas they use. As such, I believe the
14 increase proposed by our accountants is reasonable and in line with other
15 gas companies.

16 28 **Q. MR. CZESCHIN, INDIANA UTILITIES WAS RECENTLY**
17 **AUTHORIZED TO IMPLEMENT A NORMAL TEMPERATURE**
18 **ADJUSTMENT (NTA). IS THE COMPANY REQUESTING**
19 **RECOVERY OF ITS COSTS ASSOCIATED WITH THAT**
20 **PROCEEDING?**

21 A. Yes, it is.

22 29 **Q. DO YOU EXPECT THAT THESE COSTS WILL BE RECURRING?**

1 A. Yes, I do. The recurring nature of these expenses may be due to the NTA
2 itself, or the Commission's investigations and concerns related to natural
3 gas issues, or future decoupling proceedings; but it is likely that our
4 company will continue to incur these types of expenses to address the
5 volatility currently occurring in the natural gas industry. Further, I believe
6 the expenses that we incurred in the NTA represent a minimal level of
7 ongoing expenses that will continue to be incurred over the next several
8 years.

9 30 Q. **DOES THIS CONCLUDE YOUR PREFILED DIRECT**
10 **TESTIMONY?**

11 A. Yes, it does.

12 1177399